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ABSTRACT

This report examines alternatives to state-sponsored child care disregards, which allow working low-income families to offset child care expenses against earned income, thereby receiving higher Aid to Families with Dependent Children (AFDC) payments than they might otherwise obtain. It explains the need for continuous, stable child care for families who are working and receiving AFDC and provides basic background about the problems associated with child care disregards, such a low maximums, retrospective payments, and complicated rules. The report then highlights programs in Oregon and Illinois which have replaced the child care disregard with direct payment programs. The necessary elements to successfully convert the disregard to a direct payment mechanism, including recommendations for handling specific issues, are discussed. The report concludes with a sample implementation plan for converting the disregard to a direct payment mechanism. Three appendices provide a brief account of parents' and providers' experiences with the changes in Illinois, a glossary, and a state-by-state chart of child care reimbursement mechanisms for families who work and receive AFDC. (MDM)

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A PUBLICATION OF THE CHILD CARE LAW CENTER

Working for Change

ED 390 550

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Issue Topic

Helping families work – alternatives to the Child Care Disregard

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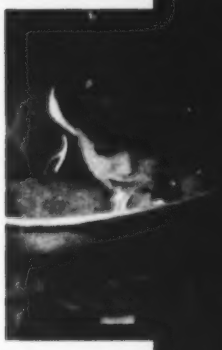

"Good child care for everyone — that's real welfare reform. So many mothers stay on welfare because they can't work or go to school because there's no way to take care of their children... We on AFDC are not just here to collect money, but to make the future better for everyone by teaching our kids right from wrong, making sure they turn out right. That's to everyone's advantage." (Interview with single mothers on AFDC in San Pedro, California)

As the welfare reform debate gathers momentum on the federal level, federal and state policymakers can learn valuable lessons from progressive initiatives in the states. Several states have recognized that child care problems can deter families from entering and succeeding in the workforce, and have initiated programs to improve the provision of child care for working families who receive Aid to Families with Dependent Children (AFDC). Our first issue of "Working for Change" features a detailed look at the administration of child care for working families who receive AFDC in Illinois and Oregon, as well as illustrations from other states.

While most states subsidize child care for working AFDC families by allowing the family to choose either direct payment of child care expenses or the child care disregard, most of these states may not adequately inform families about the implications of each choice, nor address the inequities that may result from either option. Many states (18) reimburse working AFDC families for their child care expenses primarily through the child care disregard, and six states supplement the disregard to pay for care up to the local market rate. The states we highlight have each developed strategies to overhaul the administration of the child care disregard, as part of a comprehensive effort to assist families who work and need child care. Each state's initiative evolved differently and is structured to meet the distinct needs of its working families who receive AFDC. The Child

August 1994

The Child Care Law Center is a nonprofit legal services organization dedicated to improving and expanding the child care services to low-income families and the providers who serve them. For more about CCLC see page 28.

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Guide to this Handbook

***Part I** explains the need for continuous, stable child care for families who are working and receiving AFDC and provides basic background about the problem of the child care disregard.*

Page 1

***Part II** highlights the programs that have been implemented in Oregon and Illinois.*

Page 10

***Part III** presents the necessary elements to successfully converting the disregard to a direct payment mechanism, including CCLC's recommendation for handling specific issues, as well as examples of the states' methods and ideas, the problems they have encountered and suggestions for advocacy in the states.*

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***Part IV** provides a sample implementation plan for converting the disregard to a direct payment mechanism.*

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***Appendix I:** "The Illinois Experience," a brief account of parents' and providers' perspectives on direct pay child care.*

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***Appendix II:** Glossary of terms.*

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***Appendix III:** State by state chart of child care reimbursement mechanisms for families who work and receive AFDC.*

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Care Law Center hopes that other states will use these examples, as well as the other information contained here, to design and implement innovative policies of their own.

Background

The Family Support Act (FSA) requires states to guarantee child care to all eligible families who need it to accept or retain employment. States may choose the method of providing child care, by providing care directly, reimbursing parents in advance or retrospectively, or making direct payments to providers. Eighteen states use the child care disregard for working AFDC families, but states have the option of issuing direct payments both to parents and providers for families who are covered by the child care guarantee. States can claim federal matching funds through Title IV-A for child care expenditures up to the "local market rate." This rate is established as the 75th percentile of the cost of care in the local child care market. In addition, states may set statewide limits on payment rates, which may be set below the 75th percentile but no lower than $175 per month for children two years of age and older and $200 for children under two. The FSA allows states to design and implement their child care subsidy systems within these guidelines without a federal waiver.

Why is it critical to improve child care for working families who receive AFDC?

GUIDING PRINCIPLES

- Most parents on AFDC want to work.
- Many parents on AFDC work at least part-time.
- Child care problems are a significant barrier to employment.
- Stable and continuous child care will enable parents on AFDC to become and remain employed.
- Continuous high quality care will positively and significantly impact child development.

The face of welfare will undoubtedly change dramatically during the coming year. Although a welfare reform bill has not yet been passed by Congress, advocates and legislators have been circulating many different ideas and proposals. To date, 24 diverse welfare reform bills have been introduced in Congress. States have also been experimenting with welfare reform initiatives through their own legislatures and administrative agencies, and through the federal waiver process. A common thread running through all federal and state initiatives is that they emphasize work.

Most single parents on welfare work to supplement their income from AFDC (see sidebar p.3). Many of them cycle on and off AFDC as they obtain and lose jobs. Others work continuously part-time and do not earn enough money to become independent of welfare.

In order to work, all parents need adequate supportive services, including child care. For low-income families who need subsidized child care in order to remain employed, a system that allows parents to access stable and continuous care is crucial. Many parents who want to become part of the mainstream economy are unable to do so because they lack child care while they work (see sidebar p.5).

Indeed, many parents who have entered the workforce have been forced to return to welfare due to child care problems.

Parents who receive inadequate subsidies such as the child care disregard are at a disadvantage because they can only purchase inexpensive care which is usually of low quality and because they must pay for care out-of-pocket and wait for a reimbursement (see chart 1, p.4). If parents receive adequate subsidies, they can purchase higher quality, more reliable child care. Parents who can rely on their child care provider miss fewer days of work because of failed child care arrangements. Parents also have a greater incentive to go to work, knowing their children will be cared for in a safe environment of their choice.

Encouraging and enabling parents to work is especially important now, when the safety net of AFDC could disappear for many families when welfare reform passes. Many current state and federal initiatives include:

- time limits on welfare benefits, which would force parents to work in any paid situation;
- caps or reductions in welfare grants, which would force most parents to work at least part-time to supplement their income;
- work requirements as a condition of receiving welfare benefits;
- exemptions from work requirements for parents of only very young children, forcing more parents to purchase costly infant care.

In today's economy, jobs, particularly full time jobs, are scarce (see sidebar p.3). The transition to independence and the ability to meet welfare reform work requirements requires stable and continuous child care support.

What is an income disregard?

Current welfare law provides earnings enhancements in the form of income "disregards" when families combine welfare and low-wage employment. The purpose of the disregards is to help make work pay. By ignoring a portion of earned income in grant calculations, the disregard prevents a dollar for dollar reduction in the monthly AFDC grant. Federal law provides for a standard work expense disregard of $90, a time-limited $30 plus 1/3 disregard, and a dependent care disregard. When calculating the AFDC grant, the disregards are deducted from the family's earned income, thereby "reducing" the amount of countable earned income

According to the Bureau of Labor Statistics...

in March, 1994, the number of people employed nationwide declined by 221,000 from February, while the number of people working part-time rose by 194,000. In 1993, the median weekly earnings for part-time workers (an average of 20.4 hours per week) was $135 per week.

Most Welfare Recipients Work

- **Almost 52% of single parents studied by the Institute for Women's Policy Research in 1993 were work/welfare "packagers." That is, they either combined work and welfare or cycled between work and welfare. These AFDC recipients worked an average of 900 hours per year, and, in a two year period, held 1.7 jobs for a total of 54 weeks. They worked an average of 34 hours per week.**
- **A GAO study recently found that 34% of AFDC recipients worked in the last year.**
- **In a study of California's GAIN program over three years, 57% of an experimental group and 51% of a control group were employed at some point while they received AFDC.**

and enabling the family to receive a larger AFDC grant, as well as its earnings.[1] Since this project focuses on the child care disregard, the term "disregard" will apply to the child care disregard and we will specify when the work expense or other earned income disregards are being discussed.

Chart 1

Sample AFDC Budget with Child Care Expenses

	Not Working: AFDC	Working: Disregard	Working: Direct Payment
Countable Income			
Gross Earned Income	$0	$850	$850
Work Expense Disregard	0	- 90	- 90
$30 and 1/3 Disregard	0	- 273	- 273
Max. child care disregard	0	- 375	0
Net countable income	= 0	= 112	= 487
Cash Aid			
1. Need Standard (3 persons)	$715	$715	$715
2. Net countable income	- 0	- 112	- 487
3. Potential Grant	= 715	= 603	= 228
4. Maximum Aid Payment (3 persons)	607	607	607
Actual Grant Amount (lesser of line 3 or 4)	607	603	228
Actual Grant Amount	607	603	228
Earnings	+ 0	+ 850	+ 850
Direct Payment of Child Care	+ 0	+ 0	+ 909
Child Care Paid by Parent Out-of-Pocket	- 0	- 909	- 0
Total Monthly Income ($)	**607**	**544**	**1078**

- California family with one parent and two children, ages one year and four years*
- Rates are based on the 75th percentile of Alameda county family day care rates for 1994
- Cost of care for four year old = $433/month
- Cost of care for one year old = $476/month
- Gross earnings of parent are $850 per month.

*Based on California benefits as of June, 1994.

Chart 1 illustrates the benefits of direct payment of child care expenses over the child care disregard. If a parent using the child care disregard purchased care at the 75th percentile of the local market rate, she would be left with $544 in monthly income — less than if she did not work at all.

What is the child care disregard?

The Family Support Act of 1988 guarantees child care to families who receive AFDC and need child care assistance to enable them to work. States can choose to provide child care through contracts with child care providers, to pay for child care directly through certificates, vouchers or cash payments, or to disregard child care expenses from a working parent's earned income.[2] When a state pays for child care directly, it must pay the actual cost of care up to the 75th percentile of the local market rate or the statewide limit for a particular type of child care. When a state disregards a family's child care expenses, it may disregard up to $175 per month for each child two years and over and $200 per month for each child under two years. In most states, the disregard is much lower than the 75th percentile level.

1 When calculating a family's AFDC grant, $90 is deducted from the family's gross income to account for work expenses such as transportation, uniforms, taxes, and payroll deductions. In addition, for the first four months of work, a family will deduct $30 from the amount of earned income plus 1/3 of the remainder. For an additional 8 months, $30 will be deducted. The dependent care disregard is not time-limited, but is capped at $175/$200 by federal law.

2 The child care guarantee covers children under age 13, children over 13 who are in need of adult supervision due to a physical or mental condition or who are under court supervision. Dependent care expenses for incapacitated adult family members can be disregarded, but families may not receive a direct payment for these expenses. For these purposes, we will refer to the dependant care disregard as the "child care disregard," as it applies to children who are covered by the child care guarantee. The dependent care disregard is capped at $175/$200, which may be less than the child care guarantee level, but it covers a broader group of people.

When a parent reports earned income on her monthly report, she should include any child care expenses she incurs. Those expenses, up to the disregard limit, will reduce the amount of her countable earned income, thereby increasing her grant. She is responsible for paying her child care provider the total cost of care, including any amount over the disregard limit. Expenses over the disregard level must come from her own earnings, unless the state provides a supplement. (See chart 1, p.4)

What is wrong with the child care disregard?

THE PROBLEMS WITH THE DISREGARD ARE NUMEROUS.

First, the disregard limit of $175/$200 is often inadequate to purchase any licensed or regulated care. Families may be forced to use informal, unstable, and often poor quality care for their children. (see chart 2, p.5)

Second, since payments are usually made retrospectively, families must find the resources to pay for child care at a time when they are the

Child Care Problems Are A Barrier To Employment

An Illinois study found that 20% of parents who worked returned to AFDC in 1991 due to child care problems. Many were forced to quit their jobs because their informal child care arrangements were unreliable.

Thirty-four percent of poor mothers nationwide were out of the labor force in 1986 due to a lack of child care, according to the Monthly Labor Review in October, 1991.

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A recent New York study reported that more than half of low-income parents missed one or more weeks of work per year because of child care problems. Almost one in four missed four or more weeks.

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72% of parents in Illinois who used the child care disregard indicated that paying for child care out-of-pocket was a problem for them.

"The bill for child care come four weeks before the first pay check, which did not cover it."

"If I have another bill coming up at that time then I have to let that one go and they build up while I am trying to pay the babysitter so I can work."

Chart 2

Maximum Full-Time Reimbursement Rates

State	Type of Care	Payment for Children under 2 years	Payment for Children 2 years and older
Illinois (central Chicago)	Family Day Care	$728/mo	$600/mo
Tennessee	Family Day Care	$220/mo	$204/mo
California (Alameda County)	Family Day Care	$476/mo	$433/mo
California (rural Yolo)	Family Day Care	$389/mo	$346/mo
Oregon (1992 rates)	Family Day Care	$450/mo	$400/mo
Disregard	Any	$200/mo	$175/mo

Chart 2 illustrates current child care reimbursement rates for full-time care in several states, which correspond to the actual cost of care, as compared to the maximum child care disregard level.

"Day care was my biggest concern. You get to the point where you ask: why work? It will cost me more to pay for day care than I'll make in a job. I can't afford to work. It degrades your self-esteem." Beautician and AFDC mother of three who now receives direct payment of her child care expenses.

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A 1991 study in Illinois showed that 91% of over 7,000 unemployed parents who were not in education programs said they would prefer to be working. Almost four in ten AFDC clients who received the child care disregard cited child care problems as a barrier to employment.

most financially vulnerable and then wait to be reimbursed. To alleviate this problem, states have the option of paying for child care directly during the initial months of care, until the AFDC grant reflects the disregard. If a state uses this option and the parent loses her job, however, the disregard may not be applied for the month(s) of AFDC before the grant level reflects the loss of income. In addition, many providers refuse parents out of fear they will not receive payment.

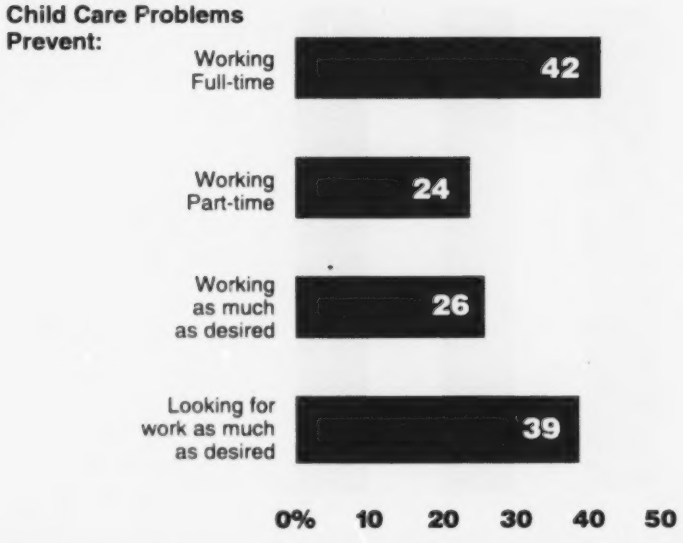
Third, the disregard is complicated to calculate and difficult for caseworkers and clients to understand. Mistakes are common, and for families who count on every dollar, a mistake in calculation may cause them to lose their child care.

Fourth, the disregard presents a serious impediment to a unified child care funding system. Since all other subsidized child care is paid directly either to the parent or the provider, the disregard mechanism prevents subsidized child care from being continuous and uninterrupted, which can have an adverse effect on both a parent's ability to maintain a job and a child's healthy development. Although proposed federal regulations will allow eligible families to access Transitional Child Care (TCC) without an application, families who use the disregard will still be required to apply for TCC in order to provide the information necessary for TCC reimbursement.

Fifth, including a child care reimbursement in an AFDC grant makes it subject to recoupments, as well as deductions for expenses such as fuel and housing costs. Some states choose to pay clients' rent directly from their AFDC grants to their landlords. Particularly when grant levels are low, including the disregard in grant calculations may raise the grant level high enough to cover housing costs. Other expenses, such as fuel costs or recoupments of overpayments may be deducted before parents receive their grants. The problem is that parents' child care reimbursements are then used to pay the rent or other expenses and the clients often do not receive any child care subsidy.

Chart 3

Child Care Problems as Barriers to Work in Illinois



A 1991 study of AFDC families in Illinois indicated that significant numbers of working parents found child care problems to be a serious impediment to their ability to maintain or advance in employment.

Sixth, many families may not earn enough money to receive the full benefit of the disregard. If a state does not supplement the disregard, families with the lowest income may pay the most money (and the highest percentage of their income) for child care at a time when they require as much support as possible to remain working.

Seventh, in states that utilize fill-the-gap budgeting, the disregard mechanism may disadvantage families, and violate the FSA, by providing a child care subsidy which is actually less than the dollar amount of the disregard.

Eighth, families who use the disregard are often subject to higher out-of-pocket costs than are families who receive other child care subsidies (see sidebar p.7).

Ninth, because the disregard is ineffective, it may prevent families from working their way off welfare and accessing other programs such as TCC and At-Risk Child Care.

In short, the disregard places an enormous hardship on families when they first begin working and are the most vulnerable. No other child care subsidy imposes as much of a cost on families as the child care disregard. The disregard effectively penalizes families' first steps towards real financial independence by requiring them to incur hundreds of dollars in child care costs the moment they begin working.

What is the child care supplement and can it improve the child care disregard system?

In light of the reality that the disregard is often insufficient to meet the child care needs of working families, the regulations to the Family Support Act allow states to supplement the disregard up to the 75th percentile of the local market rate or the statewide limit. In order to supplement the disregard, states make a direct payment of the difference between the disregard limit and either the actual cost of care, the 75th percentile, or the statewide limit to either the parent or the provider. According to federal law, states cannot simply increase the amount of the disregard. Therefore, the disregard is supplemented by paying the difference between the disregard amount and the allowable amount directly to either the parent or the provider.

The benefits of supplementing the disregard are several: First, families may be able to access higher quality and more stable child care arrangements if they can afford the out-of-pocket payments. Second, removing the barrier of unaffordable and unstable child care may enable families to obtain better jobs and earn their way off of AFDC. Third, supplementing the disregard may help to promote continuous care as families transition from JOBS through TCC. In most states, when a

The Child Care Catch-22:
"Without child care, [poor mothers] could not look for work, and without work they could not pay for child care." Peter Cotton, Monthly Labor Review October, 1991.

Ms. Jones is an employed AFDC recipient. She has one child who attends a child care center at a cost of $368 per month. Ms. Jones' gross monthly earnings are $816, and when the child care disregard is applied, she receives an AFDC grant of $20 per month, bringing her total monthly income to $836, or $10,032 per year. If Ms. Jones were not receiving public assistance, she would be eligible for child care assistance (under CCDBG, ARCC, or Title XX) and her parent fee would be $8.50 per month, based on the sliding fee scale for subsidized child care in the state. Because Ms. Jones is receiving public assistance and using the child care disregard, she must pay $193 ($368 – $175) per month from her earnings.

Child Care Supplement Illustration

Ms. Ford lives in California and has a three year old son. While participating in a JOBS training program to learn data entry, she enrolled her son in a licensed family child care program at a rate of $300 per month. Since this rate was below the local market rate, her child care was fully paid through JOBS. Once she completed the JOBS program and began working, she was still eligible for a partial AFDC grant and the child care disregard of $175 per month. Without a supplement, she could not afford to pay $125 per month for child care from her earnings. She would be forced to either quit her job or switch to a less expensive, lower quality child care arrangement. If she is notified about the disregard supplement, and can manage to make payments up-front, she can receive a supplement of up to $300 and keep her current arrangements until she becomes eligible for TCC. While she receives TCC, she will receive a subsidy of $300, minus her sliding scale family fee.

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Ms. Collins began to work part-time as a waitress and continued to receive an AFDC grant. She reported her earnings to her caseworker and her AFDC grant was reduced, without taking into account her child care expenses. Ms. Collins was unaware that she could receive a child care disregard and a supplement and her caseworker never told her. She was forced to quit her job because she could not pay for child care. As a result of quitting her job, she was sanctioned and she temporarily lost her AFDC benefits.

parent participates in JOBS, her child care provider is paid directly, at a rate high enough to purchase quality, stable care. When she finishes JOBS and is working while receiving a partial AFDC grant, she may only disregard her child care expenses. Because the reimbursement rates may differ dramatically, she may be forced to switch to a less expensive, and possibly, lower quality child care arrangement. If she then earns her way off AFDC, she will be eligible for TCC, which will pay for her child care directly up to the 75th percentile for 12 months. If the disregard is supplemented, she will be more likely to keep the same provider through the difficult transition off AFDC (see sidebar p.8).

The problem with supplementing the disregard is that two separate calculations and payment mechanisms must be used, creating an administrative nightmare for caseworkers and clients. Because payments are often made retrospectively, parents or providers must wait up to two months for reimbursement and pay child care costs in the meantime. Furthermore, families are often required to apply for a supplement. If families do not receive proper notice and an application, they may never know that the benefit exists nor take the necessary steps to obtain it.

How can the child care disregard really be improved?

A number of states have analyzed the obstacles to employment for low-income single parents and have realized that the child care disregard presents a formidable barrier to parents' ability to work and earn their way off welfare. The disregard also impedes states' ability to coordinate child care subsidies into a unified funding stream. Although many states pay for child care directly, the states we have targeted for "Working for Change" were chosen because they have developed innovative means of providing child care to working AFDC families. The states have grappled with the concerns that advocates and administrators face when confronted with various issues such as notice, cost, and continued eligibility for AFDC. While the states have not been able to solve every problem, the struggles they have encountered may provide lessons and instruction for other states.

Most often the issue has come to the attention of AFDC child care administrators as part of a larger effort — either working towards a seamless system of child care subsidies or a statewide welfare reform effort. Converting the child care disregard to direct payment is one piece of a mechanism to enable families to utilize high quality child care continuously from the time they begin to work to the time when they no longer need government

subsidies or child care. Overhauling a state's entire child care subsidy system is a lengthy and complex endeavor. Thus, this project intends to focus on one integral part of the process, which can be implemented independent of, or as part of, a comprehensive seamless system of child care. Because there is very seldom a strong enough constituency to raise these issues independently, advocates can effect positive reforms in the context of work enablement and work requirements.

In **Illinois,** the disregard was converted to direct payment in November of 1993 as part of a statewide welfare reform effort that improves AFDC parents' ability to work and retain more of their earnings.

In **Oregon,** a gradual effort to coordinate all subsidized child care funding streams includes paying for child care directly instead of using the child care disregard. The program began as a pilot project in July of 1992 and went statewide in July of 1993.

Can the disregard be eliminated completely?

There are instances in which families are either not eligible for child care subsidies or would be disadvantaged by elimination of the disregard. Federal law and regulations require the disregard to remain available in the following circumstances:

- for families with an incapacitated adult or an able-bodied child aged 13 or over who is not under court supervision;
- in rare instances when the direct payment amount is lower than the disregard amount, the family must be able to claim the disregard for amounts above the direct payment amount up to the disregard amount;
- for new AFDC applicants who have paid for child care in the month of application;
- for families who received the disregard on October 13, 1988 and who would be disadvantaged by direct payment.

In addition, unless federal regulations change, the disregard should be retained in the following instances:

- when an individual needs one or more additional months of AFDC to meet the 3 months out of 6 months eligibility requirement for TCC and Transitional Medicaid;
- when states have not made provisions to extend TCC or Transitional Medicaid, and families do not want to accelerate the loss of AFDC eligibility and begin their 12 month time limits for these programs.

States may soon be required to provide an alternative to the disregard for families who work and receive AFDC. The Clinton Administration introduced its welfare reform bill in Congress on June 21 stating that "child care is critical to the success of welfare reform. It is essential to provide child care support for parents receiving assistance who will be required to participate in education, training, and employment." The bill would require states to offer families who work and receive AFDC the same child care assistance as families in JOBS, TCC, and ARCC. To do this, states must offer families a choice of either the disregard or a direct payment for care, or instead offer them a supplement to the disregard.

Congressman Matsui (D.Cal) introduced a welfare reform bill on June 30 that would require payment for child care at no less than the actual cost of care or the 75th percentile of the local market rate. A state's obligation to guarantee child care would not be fulfilled using the disregard alone unless states offered, and a family declined, direct payment, or the disregard plus a supplement. The disregard amount would also be increased to $200 per month per child two years and over and $250 per month for children under two years.

Both proposals would significantly raise the federal share for IV-A child care.

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Oregon Highlights

Max. monthly AFDC grant in January, 1993 (single parent with 2 children) $460

AFDC benefit as a % of poverty (1992 threshold of $11,187) 49%

Average monthly AFDC caseload 41,500

Number of families receiving AFDC child care in June, 1994 1,947

Number of AFDC families reporting income in June, 1994 4,737

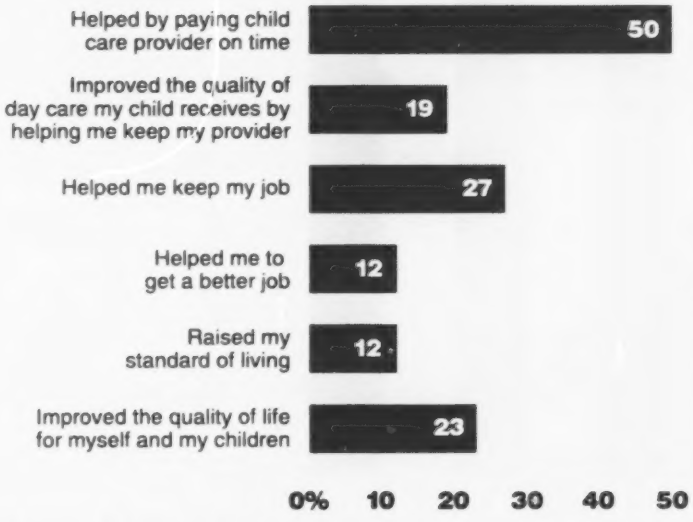
Program Design: seamless system for all AFDC and non-AFDC child care subsidies.

Waivers: none needed.

Implementation: pilot program began in four counties in August of 1992, went statewide in July of 1993.

Chart 4

Results of Oregon Survey on Benefits of Direct Payment



In 1993, AFDC parents who participated in Oregon's direct payment pilot program were surveyed. Most parents felt that the new system was an improvement over the child care disregard. Chart 4 illustrates how the new child care payment system improved their lives.

Structure: built on existing Employment Related Day Care (ERDC) for low-income families who work. Now includes working AFDC clients; low-income working families not on AFDC; and low-income families not on AFDC who are in school.

Initiative: began with Task Force of state agency administrators, advocates, R&Rs, child care providers and clients.

Administration: central Direct Payment Unit (DPU) handles billing and related questions.

Automation: yes.

Providers: must pass criminal records and child abuse check and agree to minimum health and safety requirements to receive reimbursement.

Payments: disregard no longer used (except where mandated by federal regulations), checks sent monthly to providers after bill for allowable hours is completed by provider, payment at 1990 local market rates.

Cost: average cost of care to the state increased from $1 per hour to $1.40 per hour.

Until July of 1992, the state of **Oregon** paid for child care for working families on AFDC (called ADC in Oregon) through the child care disregard. In 1986, Oregon's Adult and Family Services (AFS) began discussions with the Oregon Commission for Child Care on issues identified in local meetings around the state. A recurring theme was the disjointed payment system for subsidized child care. Families continually said that they would prefer to have AFS pay

their child care provider directly. Many providers indicated they were unwilling to serve AFDC families because of experiences with families defaulting on their child care payments.

As a result of these discussions, AFS began a pilot program to make payments for child care for JOBS participants directly to providers. In response to continuing complaints from child care providers and families in the non-pilot areas, the 1989-1991 Commission introduced legislation to pay child care providers directly for low-income working families who are not on AFDC. This program, called Employment Related Day Care (ERDC), was implemented in conjunction with the implementation of TCC. The new system was coordinated by a committee that included state administrators, child care providers, and child care advocates, with input from workers in the JOBS pilot program.

Direct payment for ERDC was implemented in April, 1990 and included the development of a Direct Pay Unit (DPU) to centralize provider payments and answer billing related questions from providers.

In 1990, with the passage of the Child Care and Development Block Grant (CCDBG), an Interagency Subsidy Task Force developed the state plan, focusing on integrating child care subsidies. The task force designed a pilot program to test the fiscal, workload, program and systems impact of a seamless system for all child care subsidies. Building on the existing ERDC program, the state replaced the child care disregard with direct payments to providers, at the same reimbursement rates used in ERDC.

The pilot program was implemented in four counties in July of 1992 and went statewide in July of 1993. At the end of the pilot program, the state conducted surveys of providers, AFDC clients, and ERDC clients. More than 90% of providers said they are very or somewhat satisfied with the new payment system and half of the parents surveyed said that the new program helped them pay their providers on time. One in five parents said that the new system enabled them to improve the quality of the care they used, and 39% said that the new payment system helped them keep their job or get a better job.
(see chart 4, p.10)

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Glossary of Oregon Terms

Adult and Family Services (AFS). This division of the Department of Human Resources handles the administration of child care subsidies and income maintenance programs.

Aid to Dependent Children (ADC). The term for AFDC in the state of Oregon.

Direct Payment Unit (DPU). This centralized office handles billing and billing-related questions for all subsidized child care programs in Oregon.

Employment Related Day Care (ERDC). This program provides child care subsidies for families who work and do not receive AFDC whose incomes are below 75% of the state's median income. The program consists of TCC, IV-A At Risk, and CCDBG funding.

Illinois Highlights

Max. monthly AFDC grant in January, 1993 (single parent with 2 children) $367

AFDC benefit as a % of poverty (1992 threshold of $11,187) 39%

AFDC caseload in June, 1994 .. 244,000

Number of children receiving AFDC child care in in June, 1994 4,800

Number of AFDC families reporting income in in June, 1994 22,469

Program Design: welfare reform effort including $2 for $3 disregard and direct payment for child care

Waivers: necessary for $2 for $3

Implementation: statewide beginning in November of 1993

Initiative: Governor's initiative with support from advocates and administrators

Administration: child care eligibility and payments administered through central state office

Automation: yes

Providers: must be listed with state and either licensed or license-exempt and self-certified that provider meets basic health and safety requirements

Payments: disregard no longer used (except where mandated by federal regulations), payment made at 75th percentile of local market rate

Cost: entire program estimated cost-neutral over 5 years

Until November of 1993, the state of **Illinois** used the child care disregard to pay for child care for working AFDC families. In order to enable families to purchase more diverse and higher quality care, the state supplemented the disregard up to the 75th percentile of the local market rate. In 1991, the state Department of Public Aid (DPA) commissioned a study of the child care problems and needs in **Illinois.** The findings of this study concluded that single parents on AFDC typically work in low-paying, intermittent jobs. The available child care they can afford is often sporadic and unreliable. As a result, many parents found that child care problems were a significant barrier to becoming and remaining employed. (see chart 3, p.6)

At the same time, the Governor's office and the legislature were developing a statewide welfare reform effort to enable families to work. Realizing the inadequacy of the child care disregard, child care advocates had been trying for a long time to improve the payment mechanism for working parents on AFDC. As part of the larger welfare reform effort in the state, legislators became very interested in supportive services which would enable families on welfare to obtain and remain in employment. The effort was initiated by the Governor's office and includes direct payment for child care for working parents on AFDC, as well as a new, $2 for $3 program. Instead of the time-limited $30 and 1/3 earned income disregard, the $2 for $3 allows parents to keep two out of every three dollars they earn until their countable income reaches the AFDC grant level. At that time, they will be ineligible for AFDC and can receive a child care subsidy

through TCC. The state applied for and received a federal waiver for the $2 for $3 program; a waiver was not needed for the direct payment of child care since the Family Support Act allows this type of payment mechanism.

Because the initiative came from the Governor's office, it received a great deal of bipartisan support. Aggressive lobbying by child care advocates made direct pay a bargaining point of passing the state budget. In order to obtain a federal waiver for the $2 for $3 initiative, DPA illustrated that the entire initiative would be cost-neutral over five years. The cost of directly paying for child care was small in comparison to $2 for $3 and could easily be integrated into the AFDC budget. Moreover, the overall effort was intended to enable parents on AFDC to work. As parents work, their AFDC grants decrease accordingly, which lowers AFDC costs. Moreover, retaining more of the money they earn will encourage more people to seek employment. In the first month of this program, the caseload of AFDC families with earned income rose 19.7%, compared to the usual 6% for the month of November. (See Appendix I "The Illinois Experience" for an account of parents' and providers' perspectives on direct payment.)

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Glossary of Illinois Terms

Department of Public Aid (DPA). The Department administers both AFDC and AFDC-related child care programs.

$2 for $3. AFDC clients who work will have 1/3 of their earnings counted against their AFDC payment amount, thus allowing them to keep 2/3 of the money they earn. This program is not time limited, unlike the $30 and 1/3 disregard.

What are the Essential Elements of Successfully Converting the Disregard?

The goals of both the Matsui bill and the Clinton Administration's bill echo the principles that the Child Care Law Center has set forth to make child care work for working families:

- **to increase federal child care funding to enable families to purchase the care they need;**
- **to simplify the administration of federal child care programs;**
- **to create consistency in child care arrangements as families move through funding streams on their way to independence; and**
- **to assure that children are cared for in healthy and safe environments.**

While the Clinton plan's goals are laudable, the Matsui proposal would do much more to address the child care needs of low-income families, through increased funding and improved administrative requirements.

INITIAL STEPS

1. Identify the need. The first step to improving the child care delivery system for working families who receive AFDC is to identify where gaps and deficiencies exist in the current system. CCLC recommends preparing an in-depth inquiry of the child care needs of clients in the state, how their needs are being met, and how child care affects their ability to work. Gather anecdotal and analytical information about the child care arrangements of parents who combine welfare and work. Collect examples of parents who returned to welfare after working and ask how their needs could have been better met. The study should include recommendations by clients, providers, and administrators as to how the system could work better for them.

The state of **Illinois** identified its child care needs in its study, "Child Care and AFDC Recipients in Illinois: Patterns, Problems and Needs." The study examined the child care needs and experiences of single-parent AFDC families during the month of November, 1990. The study looked at the type of care used, the factors that affected the choice of care, and the work and school arrangements of parents. The study looked at necessity and utilization of child care subsidies. It also surveyed child care providers to determine the type of care they provided and availability of care.

In **Oregon**, a similar inquiry was made through meetings of experts in the field. The Interagency Task Force, which designed the seamless system, was comprised of state agency administrators, advocates, resource and referral agencies (R&R), child care providers, and clients, and chaired by Adult and Family Services (AFS).

2. Convene a task force or coalition. The next step should be to convene a committee of experts — clients, providers, advocates, administrators, child care payment agency and R&R representatives — to develop goals and objectives for the state. These should include short and long-term objectives, taking into account the fiscal and political climate in the state. A successful effort will depend on agreement and coordination between all parties involved, including the legislature. Initial efforts may include convincing key people that change is necessary and determining which policy, statutory, and regulatory changes need to be made.

3. Tie the initiative to other policy goals. Linking the effort to other initiatives can effectively gain support for the effort and help to determine the long and short term goals of the effort. As in the states we have studied, converting the child care disregard to direct payment may be part of a welfare reform effort or integrated funding plan for all subsidized child care, and may begin either as a pilot program or a statewide effort.

In the long run, investing in direct payment of child care, as well as other work enabling programs, will pay off as families stabilize and retain jobs and potentially earn raises and

promotions, which will help them get off welfare permanently.

The **Illinois** program of direct pay child care was developed in conjunction with a larger welfare reform effort which improves earned income disregards for working AFDC families. The $2 for $3 program created more generous earned income disregards which, along with child care payments, will allow families to move into longer-term, stable jobs and achieve independence from welfare.

Oregon's pilot program was developed as the initial step in creating a seamless system of subsidized child care for people who work and receive AFDC, and low-income families who work or attend school but are not eligible for AFDC.

Notice and Outreach

An integral part of child care assistance is ensuring that parents make informed and educated decisions in choosing child care. The local welfare office should work in conjunction with the local R&R to assist parents in making choices. Parents on AFDC, or those applying for aid, should meet with a child care specialist (either in the welfare office or in an R&R) who will discuss the availability of various types of child care for working parents. Since many parents are not aware that child care subsidies exist, this education can create an incentive to seek employment.

Parents should also be given written notices frequently and in simple form, as a reminder that benefits exist. Written notices, as well as verbal communication with caseworkers and a child care specialist, will inform clients that a potential employment barrier no longer exists. For these reasons, it is also very important that caseworkers are familiar with and comfortable communicating about the child care subsidy system in the client's language.

In anticipation of **Illinois'** system change in November of 1993, all working families who had child care costs in August of 1993 were notified in September of the coming change. They were sent a notice stating that child care could be paid for directly, a child care application, a provider certification form, and a list of R&Rs in the state. Families were notified that they needed to use licensed or license-exempt care and were given assistance in locating care if necessary. If families didn't respond, they were sent a second packet containing another notice, an application form and a list of R&Rs.

Clients whose child care costs began in September of 1993 were given the application form and the R&R list. In November and December, families with earned income were sent a reminder to complete the application/certification form and to call their caseworker with questions.

Now, when clients report employment or employment is discovered by the caseworker, when the client

changes child care providers, or upon request, the caseworker in the local welfare office will provide the application/certification form.

In **Oregon**, notice is given at several points during the parent's involvement in the welfare system. When parents apply for AFDC, they are informed that child care will be available when they begin working. Case managers discuss child care options when clients begin looking for work. Once parents arrange child care, they are sent a parent training guide, explaining their rights and responsibilities.

Notice was sent to parents in anticipation of the pilot program, explaining how the program would work and what the client had to do to receive direct payment. Ninety-one percent of clients surveyed in the pilot said the notice was somewhat to very helpful.

Notice was also given to providers about the pilot program approximately 6 weeks before the program started. A Provider Information Packet and the Child Care Provider Guide were sent to AFDC and ERDC parents to give to their child care providers. Eighty percent of providers found the information somewhat to very helpful. Providers also found it helpful to get information from parents and from the Direct Payment Unit (DPU).

During the pilot program, R&R staff worked very closely with AFS staff to educate consumers. Both clients and providers felt that it was extremely important to expand R&R involvement to all clients, whether they are ADC clients, students, or ERDC clients. R&Rs have an important role as a supportive service for providers, as well, as they can answer questions about the listing process and provider requirements.

In **Tennessee, Connecticut,** and **Arizona**, families are given the option of receiving the disregard or direct payment of child care expenses. Eligibility workers have the responsibility of explaining to families the benefits and disadvantages of each method and families choose according to their needs. Overwhelmingly, families in these states choose direct payment.

Providers

Parental choice should be meaningful and allow parents access to safe, reliable care. Changes in funding sources should not force families to change child care providers. Many federal child care subsidies encourage parental choice in child care arrangements. Non-relative, license-exempt providers should be required to meet the following minimum health and safety standards: 1) the provider is at least 18 years old; 2) the provider is free of active infectious tuberculosis; 3) the home where the child is to be cared for contains a smoke detector and fire extinguisher; 4) the provider has received meaningful and practical information on child-proofing and pediatric first aid; and 5) the provider has ready access to a telephone

and a list of emergency and parent telephone numbers.

The provider should submit documentation of compliance with state requirements, which the state would keep in an ongoing, centralized database. Once a provider is determined to be eligible for state reimbursement, she would not be required to submit documentation for additional subsidized families.

In **Oregon**, providers must pass criminal and child abuse records checks before becoming eligible for direct payments. If a provider fails to pass these checks, AFS will pay the family directly for 30 days in cash payments while the family looks for another provider.

In **Illinois**, providers must be licensed or self-certified, acknowledging that they meet minimum health and safety standards. Some administrators were concerned that direct payments would limit the options of parents who employ undocumented aliens as providers. With the disregard, the parent could pay an undocumented provider directly. However, direct payments by the state require a social security number. This issue has not been as large a problem as expected.

Payment Process

In order to ensure that families do not experience gaps in child care that would prevent them from working, and possibly cause them to lose their jobs, it is crucial that payments be made quickly and efficiently. Most families that work and receive AFDC cannot pay for the full cost of child care while reimbursements are processed. For these reasons, we recommend several solutions: 1) make an initial advance payment to a provider or parent while eligibility is being processed; 2) make ongoing advance payments during transition periods or other times when child care might otherwise be lost; 3) issue direct, prompt payments to providers; or 4) accept bills or invoices from providers to avoid parents paying up front and obtaining receipts for reimbursement.

In addition, payment rates should be consistent for all child care subsidies, at a minimum at the 75th percentile of the local market rate. States should allow reimbursement for all hours reasonably related to work, including transportation time and meal time.

In **Illinois**, the central DFSS office sends child care providers billing forms which are to be submitted to DFSS in Springfield each month. DFSS then sends a check directly to the provider monthly. Providers get paid at the end of the month (up to 4-6 weeks after the care has been provided).

Child Care Providers Prefer Direct Payment

Although some providers in Illinois complain that sending billings to Springfield for processing delays payments, Bill Malone, a child care provider in Illinois says, "If the paperwork is done on time and done right, I get payment within three weeks of billing."

"The direct payment system is a much safer method for child care providers. Some were hesitant before to accept public aid clients because of the payment issue." Illinois child care provider.

Some providers initially complained that payment takes too long compared to the disregard method, which allowed providers to request payments from the parents as frequently as once a week. Because providers realize that they will eventually receive payment from the state, few parents have had to switch providers as a result of the new system.

Administrators have found that the biggest problem exists when poor, non-relative, license-exempt providers do not have the familial relationship which would generally make them more patient about waiting for payment.

DPA has considered a flat prospective payment to cover the provider until the first payment is made. This is problematic, however, to reconcile budgeting if child care falls through after payment has been made. Because this will likely be the parent's first child care arrangement, arrangements may change due to the provider or to the parent's work schedule.

In **Oregon**, providers are paid directly each month by the central billing office (the DPU). The provider is sent a numbered, non-replicable billing form each month for each family. The form identifies the month of care covered, the names of the eligible children in the family, and the maximum amount AFS will pay for the family. The provider must complete the form with her hours and her rate, and submit the form to the DPU to receive payment for the previous month's services. Participants are generally pleased with the administration of the system, but 35% of providers complain that the rate of reimbursement, which is paid at the 1990 local market rate, is lower than the rates they charge non-AFDC clients.[3]

Providers may only bill for "allowable" care, which means care necessary for the parent to keep her job (such as meal time and travel time). Since the program went statewide, the maximum reimbursable hours are 125% of the actual hours worked. Providers should generally be paid within one week of billing AFS. Therefore, when a family moves from AFDC to ERDC, and possibly back to AFDC, there is no disruption in child care payments and arrangements. The Direct Pay Unit (DPU) has an automated phone line to answer questions about billings. Eighty-one percent of the providers who participated in the pilot program were somewhat to very satisfied with the new billing system. More than 30% said they were more willing to accept clients on AFDC.

Funding/Costs

Since AFDC child care is an entitlement, these funds can be maximized by paying for child care as part of the overall AFDC budget. States should use Title IV-A funds to pay for care up to the 75th percentile of care and

3 Oregon's rate of payment at 1990 levels may violate HHS regulations implementing the FSA. (45 C.F.R. §255.1 (i)) which state that market rates must be updated at least biennially.

receive federal matching funds at the Medicaid rate (between 50 and 83%).[4] Using IV-A funds for those who are eligible makes fiscal sense because it uses "welfare" funds to pay for child care that enables AFDC families to work, while freeing up scarce state-only and federal CCDBG funds for low-income families who are not IV-A eligible.

The state of **Oregon** proposed to use Block Grant funds to pay for child care costs over the disregard amount, but HHS prohibited this, stating that the Block Grant could only be used to pay for care up to the lower of the 75th percentile or the actual cost of care when the actual cost of care and the 75th percentile both exceed the statewide limit for care that is guaranteed by the Family Support Act.

Figures from **Oregon's** pilot program indicate that the cost of direct payment is 154% of the cost of using the child care disregard. The increase is attributed to paying rates related to the actual cost of care (average $1.40 per hour) instead of the disregard limit (average $1 per hour). In the pilot program, the increase was $44,000 per month, and projected increases for the state were $210,000 per month. Part of the increased cost has also been attributed to an increase in the quality of care provided. An emphasis on consumer education and the need for reliable care encourages parents to seek professional child care providers who can be expected to charge higher rates for care than family and friends.

Both **Oregon** and **Illinois** have had to reach compromises to balance the new costs of their programs. Both states have restricted their AFDC eligibility criteria for working families. As a result, in Oregon, families who begin working will become ineligible for AFDC after a fairly short time. In Illinois, a few families with high incomes and high child care costs that were disregarded will no longer be eligible for AFDC. Families who are not receiving AFDC are now subject to more stringent eligibility criteria for AFDC.

Adminstration

Automation is a crucial element of a system where clients can move from one funding stream to another without gaps in their child care arrangements. Automation will also enable states to maximize funding by preventing errors, administering payments efficiently, and determining eligibility quickly and smoothly.

If states have concerns over the extra staffing needs for direct pay, they can be countered, especially when the disregard is already being supplemented. By using direct pay, states can eliminate the complicated disregard calculation and make a separate payment to the provider, which is administratively easier than the disregard and supplement. This way, child care for working parents on AFDC mirrors the rest of subsidized child care.

New York's welfare system is state run, but county administered. Therefore, the state requires administration that coordinates state and county activities. In the state's proposed plans for a unified funding system, administration has three components. First, the state needs a fiscal management system to determine client and provider eligibility, tie funds to a specific case, and make central funding decisions despite a decentralized intake system. Second, the state requires automation through either a mainframe, a client/server mode, or a PC linked system. To be useful, a single system must be able to coordinate relevant intake data to determine the funding streams for which a client is eligible and the payments that have been and will be made. The information must be linked to invoice information and centralized at some level. Third, intake should be centralized to create a single point of entry. This may be done by creating a central child care office in the social services department or though R&Rs.

4 This may be problematic in states where the state funding structure requires direct payments to be reported separately from the overall AFDC budget. In this case, child care payments may stand out and be subject to cuts if the legislature does not see the link between child care and work enablement.

In October of 1993, **14,144 AFDC families in Illinois reported earnings. Welfare reform began in November of 1993. In June of 1994, 22,469 AFDC families reported earnings, a 58% increase in 8 months.**

The state of **Illinois** has a statewide automated system that was set up to administer TCC and ARCC. Direct pay child care was added to the system recently. Administrators say that an automated system is a crucial component of making direct payment work, since the object is to provide continuous subsidies to the parent regardless of where the funding comes from. Presently, the changeover from direct pay child care to TCC is done manually when the computer notifies the caseworker that the family's earnings exceed AFDC eligibility limits. This will eventually be an automatic process.

The Department of Adult and Family Services (AFS) in **Oregon** set up the Direct Payment Unit (DPU) as a central billing unit for payments and questions. The DPU currently has approximately 17 staff to handle billing for all subsidized care.

Measuring Progress

Particularly if a state opts to test different methods of administering child care subsidies, evaluations must be conducted. A comprehensive tracking and evaluation system should be developed at the onset of the pilot, demonstration, or statewide program to monitor implementation. Evaluations are important for further advocacy efforts, for monitoring fiscal effects, and devising ways to improve the program.

In **Illinois**, direct pay child care is included in the total AFDC budget. There is no separate line item for the cost or the impact of direct pay child care. DPA monitors child care utilization and expenditures through its child care tracking system, which is a component of the state's automated process. The automated system also identifies clients who lose AFDC eligibility and can be transferred to TCC. Administrators have emphasized the importance of an automated system both for program efficiency and for evaluation purposes.

There will be ongoing studies of the caseload, including snapshots of jobs, family size, income, and type of child care chosen. DPA will track the types of child care used as families get further from welfare and maintain the same job for a period of time. The sense is that as parents remain in the same job, they will get better, more stable shifts and higher wages. They will then be able to access more formal care from the same provider. The state is looking to determine whether clients will choose more formal care if their work schedules stabilize or if they can replace their informal care through better subsidies.

The pilot program in **Oregon** was designed to provide an opportunity to evaluate the fiscal impact of the integrated program, to assess satisfaction with the program, and to evaluate alternative service delivery approaches. The state has surveyed both clients and child care providers who participated in the pilot program and has evaluated the pilot program. The surveys include information on clients' ability to maintain jobs and

child care arrangements and satisfaction with the program. The evaluation includes the additional costs incurred in the pilot program, staffing increases needed, and estimates for statewide expansion. Through its surveys, AFS was able to determine how the program affected its participants and how the program could be improved.

Loss of AFDC and Related Benefits

One potential disadvantage of using a direct payment mechanism is that, without other reforms, some families will lose eligibility for AFDC sooner. When an AFDC grant is calculated using the child care disregard, countable income is necessarily less than when child care is paid for directly because, in addition to the work-related disregards, child care costs are subtracted from the client's earned income, increasing the grant level. Because the disregard decreases the family's countable income, the family will remain eligible for AFDC and related benefits — Medicaid, Food Stamps, and subsidized housing. If the disregard is eliminated from the grant calculation, families will become ineligible for AFDC sooner, and will also lose AFDC-related benefits. In order to enable families to successfully transition from welfare to work, they must not be forced to choose child care now instead of medical care or child care in the future. It is possible to avoid disadvantaging families in this way, however.

Federal law requires that after leaving AFDC, families remain eligible for TCC and transitional Medicaid for one year. Families may also access subsidized child care through a state's ARCC program, CCDBG, or state subsidized child care. Some families leaving AFDC may also qualify for "medically needy" Medicaid, even if they do not receive AFDC.

In addition, children under the age of six must be covered by Medicaid if their family's income is under 133% of poverty. Pregnant women and children up to one year old must be covered if their income is up to 133% of poverty and states may opt to cover them up to 185% of poverty. Children born after September 30, 1983 must be covered if their family's income is under the poverty level.

In **Tennessee**, families are given the option of either the disregard or direct payment of child care expenses. The state's broad health care policy, called TennCare, allows most families who lose AFDC eligibility to access health care. From March, 1993 to March, 1994, the state's caseload of families receiving direct payment has grown 21%, which illustrates overall satisfaction with this system.

Illinois instituted direct pay as a companion to more generous earned income disregards. The $2 for $3 disregard which is not time limited will postpone the cliff effect of losing AFDC eligibility after a predetermined period. When families do become ineligible for AFDC, it will be because their income is more

Giving Families Informed Options

If families are to be given the option of direct payment or the disregard, they should be well-informed about the implications of each choice. Families should sign a form which explains their choice, after discussing options with a knowledgeable worker. The form should include:

- **the difference in the amount of payment for child care they would receive using each method**
- **an explanation of the potential loss of eligibility for AFDC-related benefits, including Medicaid, through direct payment**
- **the availability of TCC once AFDC eligibility ends.**

adequate to support them. Because AFDC will not cease prematurely, they will not begin the timelines for TCC and transitional Medicaid until their income stabilizes. Illinois no longer allows a deduction for child care when budgeting food stamps for clients who receive direct payment of child care.

Oregon's integrated system of child care covers any family whose income is below 75% of the state's median income. The coordinated funding allows families to move from IV-A child care while they work and receive AFDC to TCC to ARCC until they lose eligibility due to income. The state also has Medicaid coverage for all families below the poverty level so families who phase out of AFDC do not lose their health benefits as a result of becoming ineligible for welfare.

Sample Plan for Converting the Disregard to Direct Payment

Phase One: Planning and Coordination

- develop a committee of experts including child care administrators, advocates, child care providers, and clients
- determine the scope of the initiative and develop short and long-term goals

Phase Two: Thorough Assessment of Current Process

- document the current process through client, provider, and administrator surveys
- for each goal in Phase One, identify barriers to success and how to overcome them
- review state models in Section II and compare to your state
- determine the steps necessary to implement goals (ie: federal waivers, legislative changes, regulatory changes, policy changes)

Phase Three: Develop an Implementation Plan

- prioritize goals, if necessary.
- estimate benefits and costs to determine scale of initial effort (ie: demonstration program or statewide program)
- obtain necessary waivers and make statutory, regulatory, and policy changes

Phase Four: Preparing for Implementation

- set up automation for new payment and notice systems
- prepare notice and outreach methods for clients, providers, and administrators
- develop training materials for caseworkers

Phase Five: Implementation

- be prepared to handle initial delays in payment
- respond to feedback from participants who offer it
- survey clients, providers, and administrators for additional feedback
- measure progress through survey, tracking.

Appendix I

The Illinois Experience

THE ILLINOIS EXPERIENCE

Three years ago, Kerry Blackburn found herself in what she describes as "a desperate situation." She was pregnant with her third child when "my husband walked out on us."

Blackburn began receiving public aid support and went to school to learn a trade. Within a year she was a licensed beautician and a year after that she moved back to her home in the Chicago suburb of Glen Ellyn to take a job in a beauty shop and to be closer to her family whom she knew she could rely on to help her with child care. "Day care is *very* expensive," says Blackburn. Indeed, she once viewed the cost of child care as a significant impediment to leaving welfare for employment. "Day care was my biggest concern," she recalls. "You get to the point where you ask: why work? It will cost me more to pay for day care than I'll make in a job. I can't afford to work. It degrades your self-esteem."

Nonetheless, she persevered, and with the wages she earned from her commissions at the beauty shop, Blackburn paid her sister $300 a month to care for her three children, who are now six, five, and three years old. At first, the money she paid for child care was "disregarded" - that is, income that was ignored by the Department of Public Aid when calculating her eligibility to continue receiving an AFDC grant. But occasionally when money was tight, Blackburn recalls, she counted on her sister to "disregard" the money she was owed. "Sometimes, it was like...would you mind? I can't pay it all right now."

No more.

Since the Illinois Department of Public Aid inaugurated a new policy for direct payment of child care expenses to day care providers late last year, Kerry Blackburn's sister gets paid regularly from the Department of Public Aid and Blackburn gets peace of mind because taking care of her children is her sister's job, not a favor. "I feel so much better," she says. "I don't feel I'm taking advantage of my sister anymore. It makes my life a little more simple."

Day care providers and welfare clients alike say the new direct-pay approach for paying child care expenses for public aid families has made life simpler for everyone.

"It's the best thing that ever happened," says Bill Malone, owner of Malone's Day Care, the oldest child care center in Williamson County, in southern Illinois.

"It's worked out very well," says Melanie Girts, a welfare client in Oglesby, a small town in north central Illinois.

Providers and clients say the direct pay system promotes stability for day care centers, offers security for public aid clients, and opens up child care options for children in welfare families.

Even so, it is not yet perfect. Although the new direct-pay policy is universally praised, many also say that the system, still in its infancy, needs to work out some glitches.

Principally, complaints center on the time it takes for the Department of Public Aid to process applications for welfare clients to participate in the child care reimbursement program, which now can take up to two months. Clients must complete documentation supplied by local Public Aid offices and then submit the forms for processing in the agency's central office in Springfield, the state capital.

"Sometimes it takes a great deal of time to be notified that a client is eligible," says Vicki McMurray, who operates the ABC Child Development Center in the southern **Illinois** community of DuQuoin. About 15 percent of her 73 children are from AFDC families, McMurray says, and sometimes she has waited from four to six weeks for Public Aid to determine whether a client is eligible for the child care reimbursement program.

Despite these criticisms, the direct pay reimbursement approach is widely applauded.

Clients say the direct pay system relieves a burden on themselves and their providers, who often receive AFDC themselves. Melanie Girts paid her provider $2 an hour to care for her four children, who range in age from five to twelve, while she worked as a waitress at a restaurant in Oglesby. "Now the guilt is lifted because I know she's getting a decent wage."

Kerry Blackburn says the direct pay approach will overcome abuses she saw under the prior income-disregard system. "Too many people rip off the system and I hate to see that because some people really need it." Blackburn, who initially paid her provider for child care out of her earnings as a beautician, also says the direct pay system enables her to better handle her finances. "This is so much easier, because I can budget my expenses. Now I can pay my electric bill on time."

The direct-pay system has another benefit for welfare clients. It opens day care options to them that have been hard to come by in the past. Indeed, Blackburn had to uproot her family and move near her sister in order to have child care available so she could work. She says the informal care arrangement she has with her sister has worked well, in part because she has other family members nearby who can be a support system. "But a day care center may be the best route because not everybody has that backup." Blackburn says.

Even though Blackburn is grateful that she has been able to rely on her sister for child care needs, she now is seeking a day care center for her children to attend in the fall.

As her clientele at the beauty salon increases, Blackburn wants to find a day care center for her children to give her flexibility in serving her clients and to avoid absences from work to ferry her youngsters between school and their day care. She says that once school starts she could be forced to leave work to pick her children up from school and deliver them to her sister's home, a trip that entails about an hour of travel time. "Day care centers usually pick kids up from school and that will save me a lot of time that I need to be spending working," Blackburn says.

Moreover, she says, her children will benefit. "I want to get them settled in a regular day care that will be a little more structured," she says, adding that as her two oldest children go off to school, a regular center will give her youngest a "sense of going to school, too. Some people are very structured, creative, and patient, but you can't always find that" in informal care arrangements. "I think regular day care is probably the way to go."

That is an option that would not have been readily available to her before the direct-pay system.

Providers agree that the new pay system will open options to welfare clients.

"We need, as a society, to be sure we're not limiting the care that is available to children," says Vicki McMurray. "Sometimes the payment approach will limit options and a person will have to resort to care by a family member or a friend which is not necessarily ideal. A very young person will not be familiar with proper child care and child development principles."

Now those barriers appear to be falling.

"I have seen a reluctance among providers to provide child care to welfare clients because of the fear they wouldn't get paid," says Jane Minton, who is coordinator of welfare-to-work programs for John A. Logan Community College. "Now they don't worry about that."

Letter to Illinois Direct Pay Administrator from Working AFDC Mother

"Your program is absolutely wonderful for working parents. I probably would not have been able to keep working if it wasn't for the child care being paid. Thank you so much."

Providers agree

Carla Carmean has but one child from an AFDC family out of 83 in two Raggedy Ann and Andy Day Care Centers in Springfield. But she used to have none. "It used to be that they [Public Aid] sent money to the clients and I didn't see a penny of it. It got to the point where I didn't accept anyone on AFDC for six or seven years." But now, reassured she will be reimbursed directly by the state, she is willing again to accept welfare clients.

Carmean's concerns are familiar to Lori Longueville who, before she became director of the Child Care Resource and Referral office, operated a not-for-profit center for twelve years. She says that many welfare clients who were paying for child care "started with the best of intentions, but they have family needs that have to be served-food to buy or the kids need shoes. When you go through the clients' hands, it's iffy." She says her center sometimes had to limit the number of subsidized day care slots it would make available. "Because of the economics of it, we had to watch it. How much income can you wait for?"

But now, she says, she sees providers serve AFDC clients they once would have rejected. "Providers are guaranteed their pay. Under the other system, that wasn't true."

Bill Malone says his wife serves as vice president of the Southern Illinois Child Care Association. "When the payment issues for welfare clients came up at our meeting, all the directors were really pleased."

Indeed, Malone says, "I can't see anything negative. Parents are really pleased that their child care is taken care of and the people I have are working longer hours to better themselves."

Appendix II

Glossary

Aid to Families with Dependent Children (AFDC). Title IV-A of the Social Security Act authorizes AFDC to provide assistance to families who are deprived of parental support due to the death, absence, incapacity, or unemployment of a parent. AFDC is an entitlement program for families who have incomes below 185% of the state standard of need who also meet resource limitations. The state's contribution is matched by the federal government at the state's Medicaid matching rate.

Child Care and Development Block Grant (CCDBG). This 1990 legislation provides federal funds for child care to families who earn 75% or less of the state median income. Eligible parents must be working or in training programs, or clients of Child Protective Services and have a child under age 13. These funds are not an entitlement and require no state contribution.

Child Care Disregard (Disregard). Under Title IV-A of the Social Security Act, child care is an allowable work expense under the AFDC program. Recipients must purchase child care with their own earnings, and are then reimbursed through adjustments to their monthly AFDC grant, in the amount of $175 per month per child age two or older, and $200 per month per child under age two. The disregard is one mechanism that may be used to guarantee child care under the Family Support Act for children under age 13, or those over age 13 who need care due to a physical or mental disability or who are under court supervision. The disregard must be used to pay for care for incapacitated adult family members and for those families who received the disregard on October 13, 1988 and would be disadvantaged by not receiving it.

Child Care Disregard Supplement (Supplement). Federal regulations to the Family Support Act allow states to supplement the disregard limit of $175 and $200 to the cost of care up to the 75th percentile of the local market rate. The supplement may be given as a separate payment to the parent or care provider, or included in the family's AFDC grant. States may receive federal IV-A matching funds for a supplement up to the 75th percentile of the local market rate. The state's contribution is matched by the federal government at the state's Medicaid matching rate.

Job Opportunities and Basic Skills Program (JOBS). The Family Support Act of 1988 (FSA) mandated employment and training programs for eligible AFDC recipients. Families participating in JOBS are guaranteed child care when care is necessary to allow an AFDC-eligible family member to participate in an approved JOBS education, training or employment activity. Families may receive subsidies and states may receive federal matching funds for payments up to the 75th percentile of the local market rate. The state's contribution is matched by the federal government at the state's Medicaid matching rate.

Resource and Referral Agencies (R&R). These local agencies counsel parents about how to find child care, and coordinate a variety of resource-building and training activities for child care providers.

Transitional Child Care (TCC). The FSA requires states to pay for child care for families whose AFDC eligibility has ceased because of increased employment hours or earnings, or loss of income disregards due to an expiration of the time limits. TCC is available to eligible families for 12 consecutive months, beginning with the first month for which the family is ineligible for AFDC. Families may receive subsidies and states may receive federal matching funds for payments up to the 75th percentile of the local market rate. The state's contribution is matched by the federal government at the state's Medicaid matching rate.

Title IV-A At Risk Child Care (ARCC). This program is designed for low-income working families at risk of AFDC dependency. Eligible families are those who are not receiving AFDC, have a family member who is employed, require child care for a child under age 13 and have incomes not exceeding 84% of the state median income level at the time of enrollment. Families may receive subsidies and states may receive federal matching funds for payments up to the 75th percentile of the local market rate. The state's contribution is matched by the federal government at the state's Medicaid matching rate.

Appendix III

Child Care Payment Methods by State

State	Child Care Disregard	Direct Payments	Disregard + IV-A Supplemental Payment	Maximum monthly payment
Alabama		•		LMR* 1992 rates[1]
Alaska	•			$200/$175[2]
Arizona		•		LMR* 1990 rates
Arkansas			•	lesser of $300/$250 or LMR
California			•	LMR
Colorado	•			$200/$175
Connecticut		•		lesser of LMR or $325
Delaware		•		below LMR
DC		•		LMR
Florida	•[3]			$200/$175 unless client would be disadvantaged
Georgia		•		LMR (exact percentile varies by county)
Hawaii	•			$200/$175
Idaho	•			$200/$175
Illinois		•		below LMR* for most categories
Indiana		•	•	LMR
Iowa	•			$200/$175
Kansas		•		60-65P LMR
Kentucky	•			$200/$175
Louisiana		•		LMR 1993 rates
Maine	•			$200/$175
Maryland		•		LMR 1992 rates
Massachusetts		•		LMR* 1991 rates
Michigan	•			$200/$175
Minnesota			•	LMR
Mississippi		•		LMR
Missouri	•			$200/$175
Montana	•			$200-$175
Nebraska		•		LMR 1991 rates
Nevada	•			$200/$175
New Hampshire		•		LMR* 1992 rates
New Jersey		•		below LMR
New Mexico		•		LMR* 1991 rates
New York			•	LMR* 1992 rates
North Carolina		•		LMR* 1992 rates
North Dakota	•			$200/$175
Ohio		•		LMR* 1991 rates
Oklahoma		•		below LMR*
Oregon		•		LMR 1990 rates
Pennsylvania	•			$200/$175
Rhode Island		•		65P LMR
South Carolina	•			$200/$175
South Dakota	•			$200/175
Tennessee	•	•		65P LMR
Texas	•[4]			$200/$175
Utah		•		Below LMR
Vermont		•		71-72P LMR
Virginia		•		LMR 1993 rates
Washington		•		LMR
West Virginia		•		LMR 1991 rates
Wisconsin		1st 2 mos	•	LMR
Wyoming		•		lesser of $150 or LMR

[1] LMR = payment at the 75 percentile of the local market rate unless otherwise indicated. *1994 survey conducted but not yet implemented.

[2] Two numbers separated by / indicates two rates, first for children under 2 and second, for children over 2.

[3] Florida is implementing a policy that will require the use of the disregard as long as a client would not be dis-advantaged in comparison to direct payment at the LMR.

[4] Because the AFDC grant in Texas is very low, there are very few people who are working, still receiving AFDC, and are not in the JOBS program. Their only option is child care disregard.

CCLC represents individual providers and parents through a network of volunteer attorneys and legal services programs, offers training and educational seminars for advocates, administrators,and providers, provides technical assistance on legislative and administrative drafting and analysis, offers advocacy support for improved child care policies on local, state and federal levels, and develops and distributes publications.

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For more information or technical assistance, contact Kathleen O'Brien or Elissa Gershon at CCLC.